

**REPORT OF THE AUDIT OF THE
FORMER LAUREL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER LAUREL COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the former Laurel County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$160,197 resulting in excess expenditures over revenues of \$9,292 as of December 31, 2006. Revenues decreased by \$201,301 from the prior year and expenditures decreased by \$41,104.

Debt Obligations:

Capital lease principal agreements totaled \$132,126 as of December 31, 2006. Future principal and interest payments of \$136,711 are needed to meet these obligations.

Report Comments:

- 2006-01 The Former Sheriff Should Have Strengthened Internal Controls Over The Bank Reconciliation Process
- 2006-02 The Former Sheriff Should Have Implemented Payroll Procedures To Ensure Payroll Records More Accurately Reconciled To The Appropriate Reports and Billings
- 2006-03 The Former Sheriff Should Have Reviewed Health Insurance Billings To Ensure Proper Premiums Were Paid On Appropriate Employees
- 2006-04 The Former Sheriff Should Have Strengthened Internal Controls Over Employee Time Recordkeeping
- 2006-05 The Former Sheriff Should Have Implemented Internal Controls Over Expenditures In Order To Avoid Duplicate Payments
- 2006-06 The Former Sheriff Should Not Have A Deficit Of \$41,397 In His Official Bank Account For 2006 Fees
- 2006-07 The Former Sheriff Should Have Obtained Monthly Fee Claim Reimbursements From The State For Expenses
- 2006-08 The Former Sheriff Should Have Completed UNITE Payroll Reimbursements Forms Correctly And Timely
- 2006-09 The Former Sheriff Expended \$9,292 More To Operate His Office Than The Income Received
- 2006-10 The Former Sheriff Should Have Prepared And Submitted Quarterly Financial Reports To The Department For Local Government On A Timely Basis
- 2006-11 The Former Sheriff Should Have Presented An Annual Settlement To The Fiscal Court By March 15th
- 2006-12 The Former Sheriff Should Have Maintained Proper Documentation For All Expenditures And Avoided Paying Late Fees And Interest From His Official Fee Account
- 2006-13 The Former Sheriff Should Not Have Paid A Storage Bill On A Truck Whose Title Has Not Been Transferred To The Sheriff's Office
- 2006-14 The Former Sheriff Should Have Obtained Bids For Purchase Over \$20,000

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FORMER LAUREL COUNTY SHERIFF
For The Year Ended
December 31, 2006
(Continued)

Report Comments: (Continued)

- 2006-15 The Former Sheriff Should Have Had A Written Lease Agreement With The Laurel County Board Of Education
- 2006-16 The Former Sheriff Should Have Been Paid In Accordance With The Maximum Salary Guidelines As Established By The Department For Local Government (DLG)
- 2006-17 The Former Sheriff's Office Should Have Reimbursed The Fiscal Court For Funds Received For Employer's Share Of Retirement
- 2006-18 The Former Sheriff Should Have Requested An Amendment To Approved Salary Allotment
- 2006-19 The Former Sheriff Should Have Maintained Time Records On All Employees
- 2006-20 The Former Sheriff's Office Should Have Ensured Employees Were Properly Classified For Retirement Purposes
- 2006-21 The Former Sheriff Should Have Required The Depository Institution To Pledge or Provide Additional Collateral Of \$6,529,075 And Entered Into A Written Agreement To Protect Deposits
- 2006-22 The Former Sheriff Should Eliminate 2005 Fee Account Deficit Of \$30,237 And Pay \$30,237 Due The Fiscal Court For 2005 Excess Fees
- 2006-23 The Former Sheriff Should Eliminate 2004 Fee Account Deficit of \$39,482 And Pay \$39,482 Due Fiscal Court For 2004 Excess Fees
- 2006-24 The Former Sheriff Should Eliminate 2003 Fee Account Deficit of \$11,100 And Pay \$11,100 Due The Fiscal Court For 2003 Excess Fees

Deposits:

The former Sheriff's deposits as of November 14, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$6,529,075

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
The Honorable Gene Hollon, Former Laurel County Sheriff
The Honorable Fred Yaden, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Laurel County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated July 29, 2008 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to



The Honorable Lawrence Kuhl, Laurel County Judge/Executive
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provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2006-01 The Former Sheriff Should Have Strengthened Internal Controls Over The Bank Reconciliation Process
- 2006-02 The Former Sheriff Should Have Implemented Payroll Procedures To Ensure Payroll Records More Accurately Reconciled To The Appropriate Reports and Billings
- 2006-03 The Former Sheriff Should Have Reviewed Health Insurance Billings To Ensure Proper Premiums Were Paid On Appropriate Employees
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The Honorable Lawrence Kuhl, Laurel County Judge/Executive
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- 2006-21 The Former Sheriff Should Have Required The Depository Institution To Pledge or Provide Additional Collateral Of \$6,529,075 And Entered Into A Written Agreement To Protect Deposits
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This report is intended solely for the information and use of the Sheriff and Fiscal Court of Laurel County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized flourish at the end.

Crit Luallen
Auditor of Public Accounts

July 29, 2008

LAUREL COUNTY
 GENE HOLLON, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

Federal Grants		\$ 135,193
State - Kentucky Law Enforcement Foundation Program Fund		86,165
State Fees For Services:		
Sheriff Security Services	\$ 57,542	
Marijuana Eradication	9,497	
Mental Patient Transport	712	
Prisoner Transport	<u>369</u>	68,120
Circuit Court Clerk:		
Arrest Fees	3,433	
Fines/Fees Collected	1,034	
Court Ordered Payments	<u>3,059</u>	7,526
Fiscal Court		670,176
County Clerk - Delinquent Taxes		10,272
Commission On Taxes Collected		
Property Taxes	548,000	
Transient Room Tax	16,323	
Telecommunications Tax	<u>8,011</u>	572,334
Fees Collected For Services:		
Auto Inspections	29,466	
Accident and Police Reports	2,941	
Serving Papers	83,566	
Carrying Concealed Deadly Weapon Permits	<u>17,930</u>	133,903
Other:		
Miscellaneous		3,715
Executions		11,294
Advertising Costs and Fees		9,968
Add-on Fees		103,625
Overtime Reimbursement		720

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 GENE HOLLON, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Revenues (Continued)

Interest Earned	\$	7,127	
Borrowed Money:			
Bank Notes		<u>260,300</u>	
Total Revenues			<u>2,080,438</u>

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries		1,136,833
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Employee Benefits-

Employer's Share Social Security	\$	82,156	
Employer's Share Hazardous Duty Retirement		30,370	
Employer Paid Health Insurance		210,299	
Unemployment Insurance		<u>3,039</u>	325,864

Contracted Services-

Advertising		547	
Serving Papers		120	
Medical Fees		497	
Accounting Fees		<u>2,270</u>	3,434

Materials and Supplies-

Office Materials and Supplies		16,214	
Copier		5,811	
Mailing System		12,230	
Printing		1,209	
Uniforms		<u>14,613</u>	50,077

Auto Expense-

Gasoline		102,473	
Maintenance and Repairs		<u>51,205</u>	153,678

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 GENE HOLLON, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-

Conventions and Training	\$	3,600	
Dues		1,073	
Postage		3,570	
Bonds		939	
Executions		10,862	
Carrying Concealed Deadly Weapon Permits		335	
Communications		43,531	
Bank Service Charges		2,475	
Uncollected Returned Checks		60	
Miscellaneous		916	\$ 67,361

Capital Outlay-

Equipment			2,792
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Debt Service:

Bank Notes	260,300	
Loan Processing Fees	300	
Interest	10,685	271,285

Total Expenditures 2,011,324

Less: Disallowed Expenditures

Penalty - Late Filing on State Taxes	(155)
Late Charges	(26)
Bank Charges	(2,475)
Uncollected Returned Checks	(60)
Interest on Bank Notes	(10,685)
Processing Fees for Bank Notes	(300)
Credit Card Expenditures Without Proper Documentation	(5,619)
Employer Paid Health Insurance	(7,125)
Storage Bill on Forfeited Truck	(2,737)

Total Disallowed Expenditures (29,182)

Total Allowable Expenditures 1,982,142

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 GENE HOLLON, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Net Revenues Before Unpaid Obligations		\$	98,296
Less: Unpaid Obligations			
Due to County -			
Tax Advertising Costs	\$	3,570	
Employer's Share Hazardous Duty Retirement		5,062	
Due to State Agencies -			
Carrying Concealed Deadly Weapon Permits		11,110	
2003 Tax Escrow		344	20,086
			<hr/>
Net Revenues			78,210
Less: Statutory Maximum			<hr/> 84,200
Excess Fees			(5,990)
Less: Training Incentive Benefit			<hr/> 3,302
Excess Expenditures Over Revenues		\$	<hr/> (9,292)

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LAUREL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2006
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the former Sheriff's agreement with the bank was not approved by the bank's board of directors.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). On November 14, 2006, \$6,529,075 of the former Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$6,529,075

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 4. Drug Seizure Account

As of December 31, 2005, the former Sheriff had a balance of \$22,795 in the Drug Seizure Account. During 2006, the former Sheriff deposited \$71,659 in seized monies and earned interest of \$593. The seized funds were held by the former Sheriff pending adjudication by the courts. The former Sheriff disbursed \$74,765 in accordance with court orders during 2006, leaving a balance of \$20,282 as of December 31, 2006. Since these monies were being held by the former Sheriff pending court adjudication, they are not included as part of excess fees. On January 10, 2007, the former Sheriff transferred the December 31, 2006 balance of \$20,282 plus \$20 interest earned subsequent to December 31, 2006 to the current Sheriff.

Note 5. Undercover Drug and Alcohol Account

As of December 31, 2005, the former Sheriff had a balance of \$113,408 in the Undercover Drug and Alcohol Account. Of the \$113,408 unexpended balance, \$9,200 was cash on hand held by the former Sheriff to be used in investigative drug cases. During 2006, the former Sheriff received \$26,413, which represented the Laurel County Sheriff's Office equitable sharing in the assets seized plus interest earned on the account of \$329. The former Sheriff expended \$131,017, leaving an unexpended balance of \$9,133, as of December 31, 2006. These funds were to be used to enhance law enforcement activities and not to supplant the former Sheriff's normal operating budget; therefore, they are not included as a part of excess fees. On January 10, 2007, the former Sheriff transferred the December 31, 2006 balance of \$9,133 plus \$10 interest earned subsequent to December 31, 2006 to the current Sheriff.

Note 6. Federal Seizure Account

As of December 31, 2005, the former Sheriff had a balance of \$6,701 in the Federal Seizure Account. During 2006, the former Sheriff received \$217,054 from federal agencies as the Laurel County Sheriff's share of assets seized as a result of joint investigations with other local, state, and federal agencies. The account earned interest of \$625. The former Sheriff expended \$221,661 during the year, resulting in an unexpended balance of \$2,719 as of December 31, 2006. These funds were used to enhance law enforcement activities and not to supplant the former Sheriff's normal operating budget; therefore, they are not included as a part of excess fees. This balance was subsequently transferred to the current Sheriff on January 10, 2007.

Note 7. Local Law Enforcement Block Grant

As of December 31, 2005, the former Sheriff had an unexpended Local Law Enforcement Block Grant balance of \$2,158 on Grant #LLEB-605-04. This grant was to be used for equipment. During 2006, the account earned interest of \$17. Funds totaling \$2,175 were expended on allowable grant activities during the year, leaving an unexpended grant balance of \$0 as of December 31, 2006.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 8. Transient Room Tax Account

In September 1979, the Laurel County Fiscal Court passed an ordinance establishing the London-Laurel County Tourist and Convention Commission and levying a 3% transient room tax. In the ordinance, the Laurel County Sheriff was designated as the collector of the tax. As of December 31, 2005, the former Sheriff's Transient Room Tax bank account had a balance of \$4,206. During 2006, the former Sheriff collected \$380,145 of transient room tax receipts and the account earned net interest of \$288. In accordance with the ordinance, the former Sheriff disbursed \$367,742 to the Laurel County Fiscal Court, which in turn remitted the tax to the London-Laurel County Tourist and Convention Commission. The former Sheriff retained \$16,323 as his collection fee and used these fees for the operation of the former Sheriff's Office. Subsequent to December 31, 2006, the former Sheriff's Transient Room Tax bank account earned interest of \$16 and was charged minimum balance fees of \$110. On March 19, 2008, the former Sheriff remitted the remaining surplus balance of \$480 to the Laurel County Fiscal Court.

Note 9. Leases

- A. On January 31, 2003, the Laurel County Sheriff's Department entered into a 5-year leasing agreement with Farmers Bank & Capital Trust Co., with payments being made to Leasing One Corporation, for the purchase of five Sheriff's cruisers and equipment. Payments are due annually by February 15. The total remaining principal balance of the agreement was \$55,449 as of December 31, 2006.
- B. On February 27, 2004, the Laurel County Fiscal Court entered into a 5-year leasing agreement with Farmers Bank & Capital Trust Co., with payments being made to Leasing One Corporation, for the purchase of five Sheriff's cruisers and equipment; however, the Laurel County Sheriff's Office is making the payments. Payments are due annually by February 15. The total remaining principal balance of the agreement was \$76,677 as of December 31, 2005.

Note 10. Related Party Transactions

During the year ended December 31, 2006, the former Laurel County Sheriff's Office paid London Quick Lube and All-Pro Detail, \$4,554 and \$168, respectively, for vehicle maintenance. An employee of the former Sheriff's Office owned both of these businesses. Because of the nature of the relationship between the businesses and the employee, the transactions were considered related party transactions.

LAUREL COUNTY
GENE HOLLON, FORMER SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2006

Assets

Cash in Bank		\$ 175,545
Collected Receivables		420,203
Uncollected Receivables		
Due From 2005 Tax Account-		
Interest	\$ 113	
Due From 2006 Tax Account-		
Interest	2,323	
Surplus	<u>735</u>	
Total Uncollected Receivables		<u>3,171</u>
Total Assets		598,919

Liabilities

Paid Obligations:		
Outstanding Checks	54,051	
Liabilities Paid After December 31, 2006	<u>434,072</u>	
Total Paid Obligations		<u>488,123</u>
Unpaid Obligations:		
State Treasurer-		
Carrying Concealed Deadly Weapon Permits	11,110	
2003 Tax Escrow	344	

LAUREL COUNTY
GENE HOLLON, FORMER SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS
December 31, 2006
(Continued)

Liabilities (Continued)

Unpaid Obligations: (Continued)

Laurel County Treasurer-	
2005 Tax Advertising Costs	\$ 3,570
Employer's Share Hazardous Duty Retirement	5,062
2005 Tax Account-	
Sheriff's Add-on Fees	14,773
Tax Commissions	115,281
2006 Tax Account-	
Tax Commissions	2,053
Total Unpaid Obligations	<u>\$ 152,193</u>
Total Liabilities	<u>640,316</u>
Total Fund Deficit as of December 31, 2006	<u>\$ (41,397)</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
The Honorable Gene Hollon, Former Laurel County Sheriff
The Honorable Fred Yaden, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Laurel County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated July 29, 2008. The former Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Laurel County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Laurel County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Laurel County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2006-01, 2006-02, 2006-03, 2006-04, and 2006-05 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described above are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Laurel County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2006-06, 2006-07, 2006-08, 2006-09, 2006-10, 2006-11, 2006-12, 2006-13, 2006-14, 2006-15, 2006-16, 2006-17, 2006-18, 2006-19, 2006-20, 2006-21, 2006-22, 2006-23, and 2006-24.

The former Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the former Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Laurel County Fiscal Court, and the Department For Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 29, 2008

COMMENTS AND RECOMMENDATIONS

LAUREL COUNTY
GENE HOLLON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2006-01 The Former Sheriff Should Have Strengthened Internal Controls Over The Bank Reconciliation Process

The former Sheriff's official bank account statements for his 2006 fee account were not reconciled on a timely basis. In addition, 2004 and 2005 fee accounts remained opened and these accounts were not reconciled in order to determine the reason for the balances remaining in those accounts. Auditors noted UNITE electronically transferred \$28,907 of UNITE reimbursements to the 2004 fee bank account in July 2006. These funds actually were reimbursement for expenses incurred by the former Sheriff for his UNITE officers from January 2006 through June 2006. These funds remained in the 2004 fee bank account until December 2006 when the former Sheriff remitted the balance in the account to the fiscal court as "2004 Excess Fees" when actually the balance was 2006 receipts that should have been transferred to the 2006 fee account. Auditors have adjusted the former Sheriff's 2006 financial statement to reflect the activity in the 2004 fee bank account as transactions relating to the 2006 fee account. In addition, auditors noted the Department of Justice electronically transferred \$2,524 of 2006 Department of Justice reimbursements to the 2005 fee bank account in July 2007. These funds remained in that account until auditors informed the former Sheriff during the audit that the account should be closed to the 2006 fee account. On January 15, 2008, the former Sheriff closed the 2005 fee bank account to the 2006 fee bank account and auditors have adjusted the former Sheriff's 2006 financial statement to reflect the activity in the 2005 fee bank account as transactions relating to the 2006 fee account. In addition, the former Sheriff was unaware that \$60 of checks had been returned on his 2006 fee bank account and no attempt had been made to collect these checks from the individuals in a timely manner and redeposit them into his 2006 Fee Account. The former Sheriff should have strengthened internal controls over the bank reconciliation process by reviewing the bank reconciliations performed by his designated employee and ensuring all bank accounts were reconciled on a timely basis. The former Sheriff could have documented his review by initialing the bank reconciliation, noting the date reviewed. By reconciling all bank accounts timely, the noted deposit errors could have been corrected and items rejected by the bank could have been identified so that the appropriate action could have been taken to collect the items. As a result, the former Sheriff could have avoided insufficient fund and overdraft charges of \$2,475 and uncollected returned checks of \$60 in the 2006 fee account. These bank charges and uncollected returned checks have been disallowed.

Former Sheriff's Response: I agree.

LAUREL COUNTY
GENE HOLLON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2006-02 The Former Sheriff Should Have Implemented Payroll Procedures To Ensure Payroll Records More Accurately Reconciled To The Appropriate Reports and Billings

While an outside accounting firm prepared payroll for the former Sheriff's Office, the firm only prepared withholding remittances for federal taxes, FICA (employee and employer's share), employees' share of retirement, and child support. All other employee withholdings were prepared and remitted by the former Sheriff's Office. During 2006, the former Sheriff failed to reconcile billings from various insurance companies to the payroll records prepared by the outside accounting firm. As a result, in testing payroll, we noted numerous discrepancies between the amounts paid and the amounts withheld from employees' paychecks for their accident, cancer, and life insurance policies. In order to have strengthened internal controls as well as to have avoided errors in remittances, the former Sheriff or a designated employee should have compared billings to the amounts withheld per the payroll reports prepared by the outside accounting firm and made payments in accordance with those reports. The former Sheriff or designated employee could have documented this comparison initialing the appropriate billing statements.

Former Sheriff's Response: I agree.

2006-03 The Former Sheriff Should Have Reviewed Health Insurance Billings To Ensure Proper Premiums Were Paid On Appropriate Employees

Based on our test of health insurance billings, \$7,125 of health insurance premiums was paid on employees that had been terminated or left employment as of December 31, 2005. In the prior year, the former Sheriff had deducted these premiums paid in error on the December 2005 insurance billing; however, the insurance carrier continued to reflect a previous balance owed on the January and February 2006 billing statements. In March 2006, the health insurance carrier auto-debited the January and February 2006 premiums, as well as the previous balance of \$7,125 carried over from December 2005 from the former Sheriff's 2006 official bank account. We were unable to document that the former Sheriff had attempted to seek reimbursement from the health insurance carrier for these premiums; therefore, these premiums on terminated employees have been disallowed.

We also noted on our test of health insurance billings that the former Sheriff's office continued to pay health insurance premiums on an employee whose status changed from full-time to part-time. In addition, the former Sheriff's office also paid premiums on an employee for a single plan and no withholdings were made on that employee's wages. Based on the former Sheriff's personnel policy, health insurance coverage is provided for all full-time employees, with the former Sheriff's office paying 80% of the cost of the plan and the employee paying 20%.

LAUREL COUNTY
GENE HOLLON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2006-03 The Former Sheriff Should Have Reviewed Health Insurance Billings To Ensure Proper Premiums Were Paid On Appropriate Employees (Continued)

In order to have strengthened internal controls and ensured proper premiums were paid on appropriate employees, the former Sheriff or a designated employee should have reviewed insurance billing statements and compared them to the amounts withheld on employees' wages to ensure that the proper amounts were being withheld and paid as insurance premiums. In addition, the former Sheriff or his designated employee should have also reviewed the billing statements in order to determine whether terminated and/or part-time employees were still being included on the billings, and if so, notified the health insurance carrier of the changes in status in a timely manner so as to recover any premiums paid in error on terminated and/or part-time employees. The former Sheriff or responsible employee could have documented these reviews by initialing the billing statements.

Former Sheriff's Response: This was due to wrong bills by insurance company. They were informed of all departures.

2006-04 The Former Sheriff Should Have Strengthened Internal Controls Over Employee Time Recordkeeping

We noted in our testing of payroll, instances of time sheets or time cards not being signed by the employee and/or supervisor. We also noted that changes on time cards were not initialed/approved by a supervisor. In order to have strengthened internal controls in the area of employee time recordkeeping, all time sheets or time cards should have been signed by the employee and the next appropriate level of supervision, noting approval of hours worked or leave time taken. Any handwritten times on time cards and any other changes on time sheets should have been reviewed and initialed by the supervisor, noting approval of the changes.

We also noted an instance of a time sheet not agreeing with hours paid. In order to ensure the proper amount was paid, the former Sheriff or a designated employee should have compared the payroll sheets prepared by the CPA firm to the appropriate time records, substantiating hours worked, including overtime. Any discrepancies between time records and hours paid should have been resolved and properly documented.

In addition, for the time period we tested, some full-time and part-time employees received holiday pay for two days (Chicken Festival) that were not included as holidays recognized by the fiscal court. The former Sheriff's personnel policy defines holiday time as paid leave allotted to each full-time employee for those holidays recognized by the fiscal court. The former Sheriff should have addressed the festival in his personnel policy and/or maintained written documentation authorizing the additional holidays.

Former Sheriff's Response: All supervisors were signing payroll.

LAUREL COUNTY
 GENE HOLLON, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2006
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2006-05 The Former Sheriff Should Have Implemented Internal Controls Over Expenditures In Order To Avoid Duplicate Payments

We noted in testing operating expenditures, duplicate payments totaling \$2,952 were made to four different vendors. These duplicate payments were the result of invoices not being paid timely. The former Sheriff's Office would have several monthly billings for the same invoices and then without reviewing the statements would make duplicate payments. In order to facilitate the audit process, auditors authorized the current Sheriff to take credit for one of the duplicate payments that was still being reflected on the current Sheriff's billing statement as this was a vendor that provided continuous service from the former to the current Sheriff. After the other duplicate payments were brought to the attention of the former Sheriff during the audit process, the other three vendors were contacted and refund checks were issued to the former Sheriff's official bank account for 2006 fees. Audit adjustments were made to the "Statement of Revenues, Expenditures, and Excess Fees" for the duplicate payments and subsequent refunds from the vendors. The former Sheriff should have strengthened internal controls in the area of expenditures by him or a designated employee other than the employee preparing the checks examining the checks for proper accompanying documentation. As a part of this examination, the former Sheriff or designated employee should have verified invoices were accurate, paid timely, and effectively cancelled in order to avoid duplicate payments. As an additional control, the former Sheriff should have also required dual signatures on checks, with one being his own.

Former Sheriff's Response: I agree.

STATE LAWS AND REGULATIONS:

2006-06 The Former Sheriff Should Not Have A Deficit Of \$41,397 In His Official Bank Account For 2006 Fees

As of December 31, 2006, the former Sheriff had a deficit of \$41,397 in his official bank account for 2006 Fees. This deficit resulted from the following:

Excess of Expenditures Over Revenues	\$ 9,292
Disallowed Expenditures	29,182
Excess 2006 Sheriff's Salary	<u>2,923</u>
Total Deficit	<u>\$ 41,397</u>

We recommend the former Sheriff eliminate this deficit by depositing personal funds in his official bank account for 2006 Fees.

Former Sheriff's Response: I don't think I owe this except excess Sheriff's salary. Rest was used to run office.

LAUREL COUNTY
GENE HOLLON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-07 The Former Sheriff Should Have Obtained Monthly Fee Claim Reimbursements From The State For Expenses

The former Sheriff did not file for reimbursement of any monthly fee claims from the Commonwealth of Kentucky during 2006. The former Sheriff could have obtained reimbursement from the State for certain expenses such as waiting on court, transporting prisoners, and return of fugitives. The former Sheriff received \$47,875 and \$39,148 in reimbursement from the State for these expenses for 2005 and 2004, respectively. Based on reimbursements for these prior years, it is reasonable to assume the former Sheriff's failure to file monthly fee claims with the State resulted in a significant loss of operating revenue for the former Sheriff's Office during 2006.

Former Sheriff's Response: I agree. I thought they were being filed.

2006-08 The Former Sheriff Should Have Completed UNITE Payroll Reimbursements Forms Correctly And Timely

In comparing Unlawful Narcotics, Investigation, and Treatment Education (UNITE) federal funds received by the former Sheriff for reimbursement of deputies' salaries and fringe benefits to the amounts actually paid to the deputies as salary and for their fringe benefits, it appears the former Sheriff did not request the correct amounts on the UNITE payroll reimbursement forms. The former Sheriff should have attached supporting documentation to the reimbursement requests and then compared the amounts received from UNITE and resolved any differences or discrepancies with UNITE officials. The former Sheriff's failure to file for reimbursement of UNITE officers' salaries and fringe benefits correctly and timely resulted in a significant loss of operating revenue for the former Sheriff's Office during 2006.

Former Sheriff's Response: I agree. They were being filed, I was told.

2006-09 The Former Sheriff Expended \$9,292 More To Operate His Office Than The Income Received

The former Sheriff's Office had total revenues of \$2,080,438 and allowable expenditures of \$2,089,730 including the former Sheriff's maximum annual salary plus his 2006 training incentive benefit. Therefore, the former Sheriff expended \$9,292 more to operate his office during 2006 than revenues received. The former Sheriff could have avoided this excess of expenditures over revenues had he filed his state monthly fee claims and UNITE reimbursements timely

Former Sheriff's Response: Understand. I thought they were being filed, as I said earlier.

LAUREL COUNTY
GENE HOLLON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-10 The Former Sheriff Should Have Prepared And Submitted Quarterly Financial Reports To The Department For Local Government On A Timely Basis

The Department for Local Government (DLG) Instructional Guide For County Budget Preparation and State Local Finance Officer Policy Manual requires all sheriffs to prepare quarterly financial reports and submit the reports “by the 30th day following the close of each quarter” to DLG, Office of the Governor, Commonwealth of Kentucky. The former Sheriff’s office did not prepare or submit quarterly financial reports to DLG on a timely basis for 2006. The former Sheriff should have complied with DLG requirements to prepare and submit quarterly financial reports for each quarter.

Former Sheriff’s Response: The reports were filed, I thought.

2006-11 The Former Sheriff Should Have Presented An Annual Settlement To The Fiscal Court By March 15th

The former Sheriff did not present an annual settlement to the fiscal court for 2006. In accordance with KRS 64.830(2) each outgoing county official shall make a final settlement with the fiscal court by March 15 immediately following the expiration of his term of office. According to KRS 134.310(5), this settlement should have included:

- a) A complete statement of all funds received by his office for official services, showing separately the total income received by his office for services rendered, exclusive of his commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and
- b) A complete statement of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.

In addition, KRS 134.310(6) states “at the time he files the statements required by subsection (5) of this section, the sheriff shall pay to the fiscal court any fees, commissions, and other income of his office, including income from investments, which exceed the sum of his maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants. The settlement for excess fees and commissions and other income shall be subject to correction by audit conducted pursuant to KRS 43.070 or 64.810.” The former Sheriff should have complied with these statutes and presented an annual settlement to the fiscal court for 2006 by March 15, 2007.

Former Sheriff’s Response: We were involved in outgoing settlement of last year in office and didn’t think it was needed because of uncertainty of settlement.

LAUREL COUNTY
GENE HOLLON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-12 The Former Sheriff Should Have Maintained Proper Documentation For All Expenditures And Avoided Paying Late Fees And Interest From His Official Fee Account

Per Technical Audit Bulletin #93-001, the following is subject to an audit comment relating to Ky Const. S 173; KRS 61.190 (repealed and replaced with KRS 522.050) and 132.601(1); and Funk v. Milliken, 317 S.W.2d 499(KY 1958):

- Penalties for late payments
- Expenditures without proper and accurate documentation
- Interest incurred on a personal loan by a sheriff who chooses not to participate in the Sheriff's Advancement Program

During our testing of expenditures, we noted the following:

- \$155 was paid to the Kentucky State Treasurer for penalties and interest on filing the 3rd quarter K-1 (state income tax withholdings) late. In addition, \$26 of late payment charges was paid to one vendor that was tested. Payroll withholdings and invoices should have been paid timely in order to avoid these penalties and late charges. These penalties and late payment charges have been disallowed.
- Various expenditures totaling \$5,428 and finance charges of \$191 were charged to a MasterCard credit card. The only documentation available on these MasterCard charges was the monthly MasterCard statements, which is not considered sufficient supporting documentation. Therefore, since proper documentation (i.e. receipts) was not available for these purchases, these expenditures are disallowed. Checks should have been reviewed for supporting documentation prior to payment and payments should have been made timely to avoid finance charges.
- \$10,985 in interest, late payment charges, and loan processing fees was paid on bank loans. As an alternative to bank loans, the former Sheriff should have participated in the State Advancement Program, thereby avoiding interest expense on bank loans and related bank loan fees. The State Advancement Program as specified in KRS 64.140 allows sheriffs to apply to the Finance and Administration Cabinet for an interest-free advancement to defray necessary official expenses, including salaries, with repayment of the advancement being made to the Finance and Administration Cabinet at the end of the calendar year from the fees and commissions collected by the Sheriff. Since the former Sheriff chose not to participate in the Sheriff's State Advancement Program, the interest, late payment charges, and loan processing fees are disallowed.

Former Sheriff's Response: All of receipts were supposedly turned in by all employees. We had previously borrowed money from banks. Fiscal court never challenged it.

LAUREL COUNTY
GENE HOLLON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-13 The Former Sheriff Should Not Have Paid A Storage Bill On A Truck Whose Title Has Not Been Transferred To The Sheriff's Office

During our testing of expenditures, we noted that on December 15, 2006, the former Sheriff paid \$2,737 to a local business for 365 days of storage on a 1978 Ford pickup truck obtained by his office as part of a drug seizure case. We obtained information from the U.S. Attorney's Office verifying the truck was awarded to the Laurel County Sheriff's Office on June 13, 1996 with an appraised value of \$500. However, upon further inquiry, we determined the current Sheriff did not have possession of the truck nor was it included on the county's insurance policy. The former Sheriff indicated to auditors during the course of the audit that the truck remains on the business's premises. We further determined through the AVIS motor vehicle registration system in the County Clerk's office that the truck had never been transferred to the Sheriff's office and remained in the defendant's name with a 1995 registration. As a result of the information obtained by auditors, this expenditure has been disallowed, as the storage bill paid by the former Sheriff is an unreasonable and unnecessary expense of the former Sheriff's office. The seized truck should have been transferred to the Laurel County Sheriff's Office, parked on county property, and/or disposed of in accordance with the fiscal court's guidelines for disposition of surplus property.

Former Sheriff's Response: We did not have ownership papers for truck. The local business kept the truck since 1996 for no fees.

2006-14 The Former Sheriff Should Have Obtained Bids For Purchase Over \$20,000

In June 2006, the former Sheriff purchased a 2006 Chevrolet Tahoe for \$30,645 without obtaining bids in accordance with KRS 424.260. The former Sheriff indicated to auditors that he purchased the vehicle under the state price contract; however, checks were issued from the Federal Seizures Account and the Undercover Drug and Alcohol Account for \$25,000 and \$5,645, respectively to a Georgia car dealer. The former Sheriff should have complied with KRS 424.260, which requires that bids be obtained for all purchases involving an expenditure of more than \$20,000 or that the vehicle be purchased from the vendor that had the state price contract.

Former Sheriff's Response: It was bought for the Kentucky state contract price. One was not available in Kentucky.

LAUREL COUNTY
GENE HOLLON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-15 The Former Sheriff Should Have Had A Written Lease Agreement With The Laurel County Board Of Education

In our testing of expenditures, auditors noted that on September 12, 2006, the former Sheriff paid \$15,000 from the federal seizure account to the Laurel County Board Of Education (the Board) for rent. As documentation for this expenditure, the former Sheriff's office provided auditors with a statement from the Laurel County Board of Education dated April 28, 2006 showing that a total of \$57,600 had been billed for rent for the period of July 1, 2002 through June 30, 2006. A previous payment of \$18,633 made on September 9, 2003, was reflected on this statement, leaving a balance due of \$38,967 as of June 30, 2006. The former Sheriff's office then received another statement from the Board dated November 21, 2006, which included an additional \$7,200 rent due for the period from July 1, 2006 through December 31, 2006, leaving a total balance due of \$31,167, after giving the former Sheriff credit for the September 12, 2006 payment. The Board subsequently withheld \$31,167 from the former Sheriff's October 2006 tax commissions. However, auditors determined on the former Sheriff's Settlement - 2006 Taxes that commissions should not have been reduced for the rent payments and a refund is due the former Sheriff for overpayment of 2006 taxes.

Upon further inquiry concerning these transactions, auditors were provided a copy of a contract dated August 9, 1938, between Laurel County Fiscal Court and the City of London. That contract stated the Laurel County Board of Education (Board), while not a party to the contract, was to occupy the third floor of the county-owned building. Based on information provided to auditors, the Board renovated the third floor in 1996 at a cost of \$148,600. We were further informed that the Board had previously recouped \$43,200 of the renovation costs through rental income from the Kentucky Department of Education. In 2002, at the Board's request, the Kentucky Department of Education left the building so that the Board could rent their portion of the building to the Sheriff's office. Auditors were given an unsigned lease agreement between the Laurel County Board of Education and the Laurel County Sheriff's Office allowing the Laurel County Sheriff's Office to occupy the third floor for a sum of \$14,400 per year beginning on July 1, 2002 and ending on June 30, 2003, renewable on June 30th, unless either party was notified otherwise. While the unsigned agreement did not specify as such, auditors were informed through conversations with Board officials, the County Judge/Executive, the County Attorney, and the former Sheriff, that the Board would charge the Laurel County Sheriff's Office rent until the Board had recouped the balance of \$105,400 of renovation costs incurred by the Board.

LAUREL COUNTY
GENE HOLLON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-15 The Former Sheriff Should Have Had A Written Lease Agreement With The Laurel County Board Of Education (Continued)

Although it appears that a verbal understanding of the lease/rental arrangement existed between the former Sheriff's office and the Board, based upon the information and documentation auditors obtained, we were unable to determine whether the Board even had a legal ownership interest of the third floor space currently occupied by the Sheriff's office and was therefore able to enter into a lease with the former Sheriff's Office. Furthermore, without a formal written lease agreement, signed by the parties involved, we were unable to verify proof that the obligation to pay existed between the former Sheriff's office and the Laurel County Board of Education. By not formalizing the agreement in writing, the former Sheriff increased the risk of misunderstanding between the two parties. In our review of significant events occurring subsequent to December 31, 2006, we were informed this arrangement remains unresolved for the current Sheriff. Therefore, in order to avoid any future misunderstandings or potential disputes, we recommend the County Attorney review this arrangement with the Board's attorney and take the necessary action to obtain an appropriate resolution.

Former Sheriff's Response: A lease was signed by all parties at start. Where it is, I do not know.

2006-16 The Former Sheriff Should Have Been Paid In Accordance With The Maximum Salary Guidelines As Established By The Department For Local Government (DLG)

The former Sheriff exceeded the maximum salary as established by DLG in accordance with KRS 64.5275 for 2006 by \$2,923. The maximum salary authorized by DLG for 2006 for the former Sheriff was \$84,200; however, the former Sheriff received \$87,123. This overpayment was the result of the former Sheriff's statutory maximum being calculated based on 26 pay periods; however, there were 27 payroll dates during 2006. The former Sheriff should have been paid in accordance with DLG's 2006 maximum salary authorization schedule.

Former Sheriff's Response: Payroll was not done by my office. An outside accounting firm did all payroll accounts. I was not aware of any problem.

LAUREL COUNTY
 GENE HOLLON, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2006
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-17 The Former Sheriff's Office Should Have Reimbursed The Fiscal Court For Funds Received For Employer's Share Of Retirement

During 2006, the former Sheriff's Office received reimbursement for the employer's share of retirement from the following programs:

Kentucky Law Enforcement Education Foundation Program Fund (KLEFPF)	\$ 18,130
High Intensity Drug Trafficking Area (HIDTA)	2,704
Unlawful Narcotics, Investigation, and Treatment Education (UNITE)	14,598
Total	<u>\$ 35,432</u>

However, the Laurel County Fiscal Court on behalf of the former Sheriff's Office paid the employer's share of retirement. While this fringe benefit was an allowable reimbursable cost of these programs, the funds received by the former Sheriff's Office, as reimbursement for employer's share of retirement should have been passed through to the Laurel County Fiscal Court in order to more accurately reflect matching of program funds received with actual expenditures. On December 27, 2006, the former Sheriff made a payment of \$30,370 to the Fiscal Court and classified the payment as "Excess Fees", however, auditors have reclassified this payment and it is reflected as "Employer's Share Hazardous Duty Retirement" on the "Statement of Revenues, Expenditures, and Excess Fees." After reclassifying this payment, the former Sheriff should have reimbursed the Fiscal Court an additional \$5,062 for funds the former Sheriff's Office received as matching retirement under the KLEFPF, HIDTA, and UNITE programs.

Former Sheriff's Response: We were not aware of this.

2006-18 The Former Sheriff Should Have Requested An Amendment To Approved Salary Allotment

While the Fiscal Court set a maximum salary allotment for the former Sheriff to expend as compensation for his deputies and assistants for 2006 as required by KRS 64.530(3), the former Sheriff exceeded that allotment by \$46,799. The former Sheriff should have requested that the Fiscal Court approve an amendment to increase the original maximum salary allotment.

Former Sheriff's Response: I did.

2006-19 The Former Sheriff Should Have Maintained Time Records On All Employees

During our testing of payroll, we noted time sheets or time cards were not on file for all employees. The former Sheriff should have maintained time records for all employees, which included hours worked each day and each week by each employee, as required by KRS 337.320.

Former Sheriff's Response: They were turned in to fee account person operating that office. Where they are now, I do not know.

LAUREL COUNTY
 GENE HOLLON, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2006
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-20 The Former Sheriff's Office Should Have Ensured Employees Were Properly Classified For Retirement Purposes

We noted in our testing of payroll, that retirement was being withheld on two deputies' and two court bailiffs' wages at the nonhazardous rate and the Laurel County Fiscal Court was contributing to their plans at the nonhazardous rate. We further noted that the Kentucky Local Law Enforcement Foundation Program Fund (KLEFPF) reimbursed the former Sheriff's Office at the hazardous rate for employer's share of retirement on the two deputies. In accordance with the resolution adopted by the Laurel County Fiscal Court on January 22, 2004, the positions of deputy sheriff and court bailiff were transferred from nonhazardous duty coverage to hazardous duty coverage. In accordance with the resolution, the former Sheriff's Office should have documented that hazardous duty coverage was made available to all eligible employees and reviewed payroll reports generated by the CPA firm in order to ensure employees were properly classified as hazardous or nonhazardous employees for retirement purposes. We recommend the former Sheriff and the Laurel County Fiscal Court, determine the correct classification for the employees in question and take the appropriate corrective action to resolve whether additional employee withholdings or employer contributions should be remitted to the County Employees Retirement System.

Former Sheriff's Response: We thought that all employees were getting the right retirement benefits.

2006-21 The Former Sheriff Should Have Required The Depository Institution To Pledge or Provide Additional Collateral Of \$6,529,075 And Entered Into A Written Agreement To Protect Deposits

On November 14, 2006, \$6,529,075 of the former Sheriff's deposits of public funds were uninsured and unsecured. In addition, the former Sheriff's written agreement with the financial institution was not approved by the board of directors of the depository institution or its loan committee. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The former Sheriff should have required the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. In addition, the former Sheriff should have ensured his written agreement with the depository institution was approved by the board of directors or its loan committee. According to federal law, 12 U.S.C.A. § 1823(e), in order to be recognized as valid by the FDIC, this agreement, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Former Sheriff's Response: I thought that they were pledged due to discussions with the banks on different occasions.

LAUREL COUNTY
 GENE HOLLON, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2006
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-22 The Former Sheriff Should Eliminate 2005 Fee Account Deficit Of \$30,237 And Pay \$30,237 Due The Fiscal Court For 2005 Excess Fees

As reported in the prior year audit, the former Sheriff had a deficit of \$30,487 in his official bank account for 2005 fees. This deficit resulted from the following:

Excess 2005 Sheriff's Salary	\$ 1,258
Disallowed Expenditures	28,729
Undeposited County Payments	<u>500</u>
Total Deficit	\$ 30,487
Documented Expenditures	<u>(250)</u>
Adjusted Deficit	<u>\$ 30,237</u>

As a result of the excess Sheriff's salary, disallowed expenditures, and undeposited county payments, an additional \$30,487 in excess fees was due for 2005. The former Sheriff subsequently provided auditors with documentation for \$250 of expenditures that had previously been disallowed due to a lack of supporting documentation, thereby reducing the deficit and additional excess fees due for 2005 to \$30,237. We recommend the former Sheriff eliminate this deficit by depositing personal funds of \$30,237 in his official bank account for 2005 fees and then pay the county treasurer \$30,237 due the fiscal court for 2005 excess fees.

Former Sheriff's Response: I don't think I owe this. It was used in operation of office.

2006-23 The Former Sheriff Should Eliminate 2004 Fee Account Deficit of \$39,482 And Pay \$39,482 Due Fiscal Court For 2004 Excess Fees

As reported in the prior year audit, the former Sheriff had a deficit of \$39,684 in his official bank account for 2004 fees. This deficit resulted from the following:

Excess 2004 Sheriff's Salary	\$ 1,384
Disallowed Expenditures	36,502
Undeposited Receipts	<u>1,798</u>
Total Deficit	\$ 39,684
Documented Expenditures	<u>(202)</u>
Adjusted Deficit	<u>\$ 39,482</u>

LAUREL COUNTY
GENE HOLLON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-23 The Former Sheriff Should Eliminate 2004 Fee Account Deficit of \$39,482 And Pay
\$39,482 Due Fiscal Court For 2004 Excess Fees (Continued)

As a result of the excess Sheriff's salary, disallowed expenditures, and undeposited receipts, an additional \$39,684 in excess fees was due for 2004. The former Sheriff subsequently provided auditors with documentation for \$202 of expenditures that had previously been disallowed due to a lack of supporting documentation, thereby reducing the deficit and additional excess fees due for 2004 to \$39,482. We recommend the former Sheriff eliminate this deficit by depositing personal funds of \$39,482 in his official bank account for 2004 fees and then pay the county treasurer \$39,482 due the fiscal court for 2004 excess fees.

Former Sheriff's Response: Same response as prior, it was used in operation of office except for excess salary.

2006-24 The Former Sheriff Should Eliminate 2003 Fee Account Deficit of \$11,100 And Pay
\$11,100 Due The Fiscal Court For 2003 Excess Fees

As reported in the prior year audit, the former Sheriff had a deficit of \$11,100 in his official bank account for 2003 fees due to disallowed interest on bank loans. As a result of the disallowed interest on bank loans, an additional \$11,100 in excess fees was due for 2003. We recommend the former Sheriff eliminate this deficit by depositing personal funds of \$11,100 in his official bank account for 2003 fees and then pay the county treasurer \$11,100 due the fiscal court for 2003 excess fees.

Former Sheriff's Response: I feel this is not due.

